

Message Text

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PAGE 01 PHNOM 10793 01 OF 02 061303Z

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03

SS-15 USIA-15 ACDA-19 IO-15 DPW-01 AID-20 OMB-01

TRSE-00 DRC-01 EB-11 CIEP-02 AGR-20 SPM-01 /202 W

----- 035855

R 061100Z OCT 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 3306

INFO AMEMBASSY TOKYO

AMEMBASSY LONDON

AMEMBASSY CANBERRA

AMEMBASSY PARIS

AMEMBASSY KUALA LUMPUR

AMEMBASSY BANGKOK

AMEMBASSY WELLINGTON

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

AMEMBASSY ROME

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY COPENHAGEN

AMEMBASSY BONN

AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 1 OF 2 PHNOM PENH 10793

E.O. 11652: N/A

TAGS: EFIN , EAID, PFOR, CB

SUBJECT: RECEIPT OF DIPLOMATIC NOTES FOR 1974 EXCHANGE SUPPORT FUND

1. ON OCTOBER 3RD THE LONG AWAITED DIPLOMATIC NOTES REQUESTING CONTRIBUTIONS TO THE 1974 EXCHANGE SUPPORT FUND WERE RECEIVED BY US. IDENTICAL NOTES WERE TO BE DELIVERED TO COUNTRIES CURRENTLY CONTRIBUTING TO THE ESF, OTHER EEC COUNTRIES WITH EMBASSIES IN
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PAGE 02 PHNOM 10793 01 OF 02 061303Z

PHNOM PENH, AND KOREA AND TAIWAN. WE ARE FOLLOWING-UP INFORMALLY

WITH OTHER EMBASSIES TO ASSURE THEY ALSO RECEIVED NOTES.

2. GKR INTENDS TO HOLD CONFERENCE ON 1974 ESF AT IMF PARIS OFFICE.
IMF RES REP HERE IS RECOMMENDING CONFERENCE BE HELD THERE ON
NOVEMBER 15.

3. THIS MESSAGE TRANSMITS FULL TRANSLATED TEXT OF THE NOTES.

4. COVER LETTER TEXT AS FOLLOWS:

NO. 971/DGE/AE

THE MINISTRY OF FOREIGN AFFAIRS PRESENTS ITS COMPLIMENTS TO
THE EMBASSY OF THE UNITED STATES OF AMERICA IN PHNOM PENH, AND HAS
THE HONOR TO REQUEST IT TO TRANSMIT TO ITS GOVERNMENT THE ATTACHA
LETTER FROM THE GOVERNMENT OF THE KHMER REPUBLIC CONCERNING THE
EXCHANGE SSAPORT FUND FOR THE YEAR 1.'4.

THANKING THE MBASSY OF THE
UNITED STATES OF AMERICAN IN
ADVANCE FOR ITS KINDNESS, THE MINISTRY OF FOREIGN AFFAIRS ETC.

PHNOM PENH, OCTOBER 3, 1973

AMERICAN EMBASSY

PHNOM PENH

RR5. COVER LETTER , SIGNED BY CHHANN SOKHUM, ACTING MIMQSTER OF
STATE IN CHARGE OF FOREIGN AFFAIRS, TEXT AS FOLLOWS:

PHNOM PENH, OCTOBER 1, 1973

HIS EXCELLENCY DR. HENRY KISSINGER
SECRETARY OF STATE
WASHINGTON, D.C.

EXCELLENCY,

THE WAR WHICH FALLS BRUTALLY ON OUR COUNTRY, AT THE SAME TIME
ITS ECONOMIC SITUATION BORDERS ON A CRISIS, IS FAR FROM
IMPROVING, RATHER IT IS MORE SERIOUS. THE REALITIES THAT WE HAVE
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PAGE 03 PHNOM 10793 01 OF 02 061303Z

ENCOUNTERED SINCE ARE A GREAT DECREASE IN LOCAL
PRODUCTION, A DISLOCATION OF OUR TRANSPORT SYSTEM, AND A COLLAPSE
OF
EXPORTS. BUDGETARY EXPENSES HAVE GREATLY INCREASED DUE TO THE
RESPONSIBILITIES THAT WE MUST ASSUME TOWARDS THE POPULATION, WHERE-
AS THE FISCAL REVENUES HAVE BEEN DIMINISHED, THE TRADITIONAL
FINANCIAL STABILITY HAS BEEN AFFECTED BY THE BUDGETARY DEFICITS
WHICH HAVE RESULTED IN STRONG MONETARY EXPANSION. THIS SITUATION

AND THE NECESSITY OF KEEPING A MINIMUM STANDARD OF LIVING FOR THE POPULATION HAS OBLIGED THE GOVERNMENT TO MAKE AN APPEAL FOR FOREIGN AID. THIS AID HAS BEEN GIVEN WITH GENEROSITY AND UNDERSTANDING BY OUR FRIENDLY COUNTRIES. THE UNITED STATES HAS PERMITTED US TO BUY WITHOUT EXCHANGE MANY OF OUR NEEDS UNDER THE COMMODITY IMPORT PROGRAM (CIP) OR UNDER THE PL 480 PROGRAM. AUSTRALIA, THE UNITED STATES, ENGLAND, JAPAN, MALAYSIA, NEW ZEALAND AND THAILAND HAVE PARTICIPATED WITH THE KHMER REPUBLIC IN THE EXCHANGE SUPPORT FUND. MANY OTHER FRIENDLY COUNTRIES WHICH HAVE NOT PARTICIPATED TO THIS FUND, FOR ONE REASON OR ANOTHER HAVE ALWAYS EXPRESSED THEIR WARM SYMPATHY FOR OUR ECONOMIC DIFFICULTIES.

THE OBJECTIVE OF THE EXCHANGE SUPPORT PROGRAMS IS TO PERMIT THE KHMER REPUBLIC TO FINANCE WITH UNTIED FOREIGN RESOURCES A PART OF THE IMPORT REQUIREMENTS FOR THE CIVIL SECTOR OF THE ECONOMY. IN 1972 THE FOREIGN CONTRIBUTIONS TO THE FUND HAD REACHED 19.5 MILLION DOLLARS AND THE CONTRIBUTION OF THE KHMER REPUBLIC WAS 15 MILLION DOLLARS. IN 1973, THE FOREIGN CONTRIBUTIONS HAVE GONE UP TO 26.5 MILLION DOLLARS AND THE KHMER CONTRIBUTION IS 8.5 MILLION DOLLARS. THE TOTAL RESOURCES FOR EACH YEAR WERE THEN ABOUT 35 MILLION U.S. DOLLARS. THE UTILIZATION OF THESE UNTIED FOREIGN EXCHANGE RESOURCES HAS CONTRIBUTED TO A SUFFICIENT SUPPLY OF COMMODITIES FOR OUR COUNTRY AS WELL AS TO THE GOOD FUNCTIONING OF OUR EXCHANGE MARKET.

TO BETTER FACE THE DETERIORATED ECONOMIC SITUATION, THE KHMER GOVERNMENT ESTABLISHED AN ECONOMIC STABILIZATION PROGRAM IN OCTOBER 1971, UNDER THE TECHNICAL EXPERTISE OF THE IMF. THE ACCENT OF THE PROGRAM WAS PLACED ON MONETARY AND BUDGETARY LIMITED OFFICIAL USE

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PAGE 04 PHNOM 10793 01 OF 02 061303Z

RELIEF, AND A SYSTEM OF FREE EXCHANGE WAS ADOPTED CONVERTING EXTERNAL TRADE. PAST RESTRICTIONS ON FOREIGN EXCHANGE TRANSACTIONS WERE ELIMINATED AND A FLEXIBLE RATE OF EXCHANGE WAS INTRODUCED.

THE ANTI-INFLATIONARY MEASURES HAVE HAD SOME RESULTS. THE RATE OF INCREASE IN THE MONEY SUPPLY HAS BEEN BROUGHT DOWN FROM 51 PERCENT IN 1971 TO 41 PERCENT IN 1972. IN 1973 AN INCREASE OF 35 PERCENT IS FORESEEN, THIS IMPROVEMENT BEING POSSIBLE WITH A MORE AND MORE AUSTERE BUDGETARY POLICY. THE INITIAL IMPACT OF THE STABILIZATION PROGRAM RESULTED IN A STRONG LESSENING OF PRICE INCREASES UNTIL JUNE 1972. THE DIFFICULTIES WITH THE RICE SUPPLY SINCE THE AUTUMN OF 1972 AND THE VERY RECENT INTENSIFICATION OF COMBAT AROUND PHNOM PENH HAVE HAD THE IMPACT OF INCREASING PRICES AGAIN. THE PRICE INDEX OF THE WORKING CLASS PEOPLE HAS INCREASED FIFTY PERCENT DURING THE SECOND HALF

OF 1972 AND 58 PERVKCENT DURING THE FIST HALF OF 1973.
THIS PRICE INCREASEHOAS BEEN CAUSED PRINCIPALLY BY THE RICE SHORT-
AGE WHICH HAS BECOME AN INTERNATIONAL PHENOMENON, AND THE
INTERMITTENT CUTTING OF OUR ROADS WHICH GREATLY AFFECTED
THE SUPPLY OF FOOD PRODUCTS TO OUR CAPITAL.

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PAGE 01 PHNOM 10793 02 OF 02 061320Z

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TRSE-00 DRC-01 EB-11 CIEP-02 AGR-20 SPM-01 /202 W
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R 061100Z OCT 73
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TO SECSTATE WASHDC 3307
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AMEMBASSY BONN
AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 2 OF 2 PHNOM PENH 10793

PRICE INCREASES HAVE MADE AN INCREASE IN THE SALARY OF THE
MILITARY AND CIVIL PERSONNEL INDISPESABLE.
LAST JUNE, THE

GOVERNMENT AGREED TO GIVE A PAY INCREASE OF 2,000 RIELS PER MONTH TO ALL PERSONNEL. THIS INCREASE WAS ONLY EQUIVALENT TO THE ADDITIONAL AVERAGE EXPENSES FOR EACH FAMILY CAUSED BY THE INCREASE OF THE PRICE OF RICE. NO OTHER COMPENSATION HAS BEEN GIVEN, NEITHER FOR THE INCREASE OF OTHER USOMMODITY PRICES, NOR LIMITED OFFICIAL USE

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PAGE 02 PHNOM 10793 02 OF 02 061320Z

FOR THE EFFECT OF THE MEASURES WHICH HAVE BEEN ADOPTED BY TTN GOVERNMENT IN ORDER TO RELIEVE THE BUDGETARY SITUATION. A LARGE PART OF OUR POPULATION HAS SUFFERED FROM THIS DRASTIC FALL IN THEIR PURCHASING POWER.

SINCE THE BEGINNING OF THE YEAR, THE GOVERNMENT HAS TAKEN THE FOLLOWING MEASURES IN ORDER TO MOBILIZE AND BETTER DISTRIBUTE INTERNAL RESOURCES:

A) INCREASE OF POL PRODUCT PRICES WITH THE PERCENTAGES VARYING FROM 75 TO 300 PERCENT;
B) INCREASE IN ELECTRICITY RATES OF 400 PERCENT;
C) INCREASE OF THE PRICE OF WATER BY 200 PER CENT

D) INCREASE OF THE OFFICIAL PRICE OF RICE BY 100 PERCENT FROM ABOUT 25 RIELS PER KILOGRAM TO 50 RIELS PER KG;
E) TAX INCREASE ON BUSINESS PROFITS FROM 25 TO 30 PERCENT;
F) HEAVY TAX INCREASE ON THE IMPORTS OF LUXURIOUS GOODS;
G) INCREASE OF TAXES ON THE SALE OF CIGARETTES BY ABOUT 50 PERCENT; AND
H) ELIMINATION OF ALL KINDS OF SUBSIDIES ON ESSENTIAL PRODUCTS, INCLUDING RICE.

IN ORDER TO PRESERVE ITS OWN FOREIGN EXCHANGE RESERVE, THE GOVERNMENT HAS ALSO FOLLOWED A VERY STRICT POLICY CONCERNING ITS INVISIBLE FOREIGN EXCHANGE EXPENSES ABROAD. THIS POLICY HAS BEEN THE MAIN REASON FOR WHICH OUR FOREIGN EXCHANGE RESERVES, WHICH WERE ALREADY AT A MINIMUM LEVEL AT THE BEGINNING OF THE YEAR." HAVE NOT DECREASED MORE.

THOUGH THE KHMER GOVERNMENT CONTINUES TO TAKE DECISIONS WHICH WILL PERMIT IT, AS FAR AS POSSIBLE, TO RELIEVE THE BUDGETARY SITUATION, IT IS EVIDENT THAT IT WIGZ CONTINUE TO BE DEPENDENT ON FOREIGN AID, EVEN IF THE WAR IS SETTLED IN THE NEAR FUTURE. FROM AN ECONOMIC POINT OF VIEW, IT IS TO BE NOTED IN THIS RESPECT THAT THE RESOURCES OF THE EXCHANGE SUPPORT FUND HAVE BEEN EXPRESSED IN U.S. DOLLARS AND THAT DUE TO THE DEVALUATION OF THE AMERICAN CURRENCY THE SAME AMOUNT OF RESOURCES UTILIZED IN 1972 AND 1973 WOULD NOT BE SUFFICIENT TO COVER OUR NEEDS IN THE YEAR 1974.

IN JULY 1973, THE INTERNATIONAL MONETARY
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PAGE 03 PHNOM 10793 02 OF 02 061320Z

FUND HAD ITS FIRST CONSULTATIONS WITH THE KHMER REPUBLIC PURSUANT TO ARTICLE XIV. AND IN OCTOBER 1973, WE WILL RECEIVE A NEW IMF DELEGATION FOR THE ESTABLISHMENT OF ANOTHER DETAILED REPORT OUR ECONOMIC POLICY AND OUR FOREIGN AID NEEDS. THIS REPORT WILL BE DISCUSSED AT THE MEETWG THAT WE INTEND TO ORGANIZE THIS NOVEMBER AT PARIS, BETWEEN THE KHMER REPUBLIC AND ITS FRIENDLY COUNTRIES. ON THE OCCASION OF THAT MEETING WE ALSO HAVE THE INTENTION OF DISCUSSING WITH OUR CREDITOR COUNTRIES THE SCHEDULING OF DEBT PAYMENTS DUE IN 1974.

ENCOURAGED BY THE SYMPATHY AND THDWARM INTEREST THAT YOUR COUNTRY HAS NEVER CEASED TO GRANT US,I PLAN TO FOLLOW THIS LETTER BY A FORMAL INVITATION TO YOUR COUNTRY FOR A MEETING, THE PLACE AND DATE WILL BE FIXED IN DUE COURSE AND WITH A MORE DETAILED DOCUMENT ABOUT OUR SITUATION.

EXCELLENCZ, THAT IS THE SITUATION OF THE KHMER REPUBLIC, CREATED BY THE UNJUSTIFIED WAR OF AGRESSION WHICH HASBEEN IMPOSED ON IT BY THE NORTH VIETNAMESE AND VIETCONG COMMUNISTS. THE PEOPLE AND THE KHMER GOVERNMENT ARE DETERMINED TO STRUGGLE WITH ALL MEANS FOR THE SURVIMHL OF THE REPUBLIC.

HYEREFOR MY GOVERNMENT TAKES THE LIBERTY OF COUNTING ON THE SUPPORT THAT YOUJBGOVERNMENT WILL BE WILLING TO PROVIDE TOWARD THIS FIGHT FOR JUSTICE AGAINST A BRUTAL FORCE.

PLEASE ACCEPT, EXCELLENCY, THE ASSURANCE OF MY HIGHEST CONSIDERATION.

CHHAN SOKHUM
ACTING MINISTER OF STATE FOR FOREIGN AFFAIRS

"

ESF LETTER TEXTIWS FOLLOWS:

MINISTRY OF FOREIGN AFFAIRS PHNOM PENH, OCT. 3, 1973
NO. 970/DGE/AE

EXCELLENCY,

I HAVE THE HONOR OF INFORMING YOU THAT THE KHMER GOVERNMENT
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PAGE 04 PHNOM 10793 02 OF 02 061320Z

HAS INSTRUCTED ITS DELEGATION TO THE ASSEMBLY OF GOVERNORS OF THE IMF AND THE IBRD, WHICH TOOK PLACE IN NAIROBI (KENYA)N TO CONTACT THE DELEGATIONS OF THE COUNTRIES PARTICIPATING IN THE

EXCHANGE SUPPORT FUND OF THE KHMER REPUBLIC, REQUESTING THEM FOR A
NEW EFFORT IN FAVOR OF THE EXCHANGE SUPPORT FUND FOR THE YEAR 1974.
FOR THIS PURPOSE, THE KHMER DELEGATION WILL PROPOSE CONVENING A
PRELIMINARY MEETING IN ORDER TO OBTAIN THE BASIC AGREEMENT OF
ALL THE COUNTRIES WISHING TO CONTRIBUTE TO THIS EXCHANGE
SUPPORT FUND FOR
THE YEAR 1974. THE PLACE AND DATE OF THIS CONFERENCE
WAS FIXED BY COMMON AGREEMENT IN NAIROBI.

THE CONTRIBUTIONS IN 1971 AND 15)2 FROM FRIENDLY COUNTRIES
ENABLED THE APPLICATION OF OUR ECONOMIC STABILIZATION
PROGRAM RECOMMENDED BY THE IMF TO PREVENT THE DIFFICULT
FINANCIAL AND ECONOMIC SITUATION IN THE KHMER REPUBLIC FROM
LKRSENINBTNQ THEY HAVE PERMITTED THE PEACEFUL KHMER PEOPLE TO
SAYVIVE THE WAR OF AGGRESSION THAT THE VIEZMONG AND NORTH
VIETNAMESE HAVE UNJUSTLY BROUGHT ON THEM.

ALSO, MY GOVERNMENT HAS TO COUNT FIRMLY ON THE SUPPORT THAT YOUR
GOVERNMENT WOULD KINDLY GIVE TO IT IN ORDER ZP PERMIT
IT TO CONTINUE THIS URUGGLE FOR ITS SURVIVAL.

DECON:
MTER 11/6/74
ENDERS

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